

January 15, 2002

To: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne Brathwaite Burke  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: David E. Janssen  
Chief Administrative Officer

## **STATE LEGISLATIVE UPDATE**

### **Legislative Analyst's Office (LAO) Releases Overview of the Governor's Budget**

Today, the LAO released its overview of the Governor's Proposed State Budget for FY 2002-03. Its capsule summary notes that while the budget is "balanced on paper," it relies on optimistic revenue assumptions and one-time solutions, some of which result in substantial long-term costs. As a result, the budget does not solve the State budget's underlying structural imbalance, which is likely to result in shortfalls in subsequent years.

The LAO indicates that the Administration's forecast of revenues is above the LAO's November 2001 projections by \$1.7 billion for FY2001-02 and about \$300 million in FY 2002-03. The main reason for the disparity is the Administration's more optimistic assumptions regarding stock options and capital gains. The Administration only forecasts a 47 percent decline in income derived from stock options and capital gains between 2000 and 2001, while the LAO assumes a decline of about 60 percent followed by a 15 percent increase in 2002. The Administration's more optimistic assumptions translate into about \$2 billion in additional personal income tax revenues in FY 2001-02 and about \$1.3 billion in FY 2002-03. The LAO notes that year-end receipts from personal income tax payers have been so weak as to suggest that actual receipts are not likely to even reach the level of their lower estimate.

Other risky assumptions in the Governor's budget include unrealistic increases in federal funding for a variety of programs, the possibility that the Proposition 98 minimum funding requirement could be up to \$900 million higher than forecast, and the assumed repayment

to the General Fund of \$6 billion for loans to the Electric Power Fund during last summer's energy crisis.

Because it relies so heavily on one-time cuts, loans and transfers, the LAO indicates that the proposed budget does not address the potential for deficits in future years and may add to the underlying problem. Some of these measures include the securitization of tobacco settlement revenues, postponement of State contributions to PERS and the State Teacher Retirement System in exchange for future benefit increases for retirees, and borrowing from special funds. Even using the Governor's assumptions, the LAO estimates that the FY 2003-04 budget would have an operating deficit of nearly \$4 billion.

The LAO concludes by suggesting that as the Legislature begins to develop its overall budget solution, it should consider a wider range of alternative budget solutions; weigh the consequences to future budgets of proposed solutions; adopt solutions that "make sense" and are not counter productive; and utilize current year budget solutions to address the problem as much as possible.

The LAO will be releasing its detailed Analysis of the Governor's Budget in mid-February.

### **Status of County Interest Legislation**

**County-opposed SB 18 (Alarcon)**, which would have reduced the Los Angeles County Board of Supervisors' representation on the MTA Board from five to three members was passed by the Senate Transportation Committee today. Senator Alarcon amended the bill to eliminate the provisions related to the reduced Board representation on the MTA Board, and is now working to refocus the bill to study the governance of the MTA. The bill moves to the Senate Appropriations Committee. No hearing has been set. Our Sacramento advocates will continue to oppose SB 18.

We will keep you advised.

DEJ:GK  
IGR:md

c:     Executive Officer, Board of Supervisors  
       County Counsel  
       Local 660  
       All Department Heads  
       Legislative Strategist  
       Coalition of County Unions

Each Supervisor  
January 15, 2002  
Page 3

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Independent Cities Association  
League of California Cities  
City Managers Associations  
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